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SIPDIS

SENSITIVE

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LABOR FOR ANA VALDES

E.O. 12958: N/A

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SUBJECT: Vietnam: First Round of Bilateral Textile Talks

SENSITIVE BUT UNCLASSIFIED PROTECT ACCORDINGLY

11. (SBU) Summary and Introduction: USTR Special Textile Negotiator David Spooner led a 10 person USG delegation to Hanoi to begin negotiation of a bilateral textile agreement. The negotiations, originally scheduled to take place February 19-21, were shortened by half because weather conditions in Washington delayed the departure of most members of the U.S. delegation by two days. After a brief review of the three draft agreements tabled by the U.S. (a textile agreement, visa arrangement, and a market access agreement for U.S. textiles/apparel), the Vietnamese argued against inclusion of a labor provision within the textile agreement and against negotiation of a market access agreement at this time. The GVN was not able to provide the U.S. side with a counter proposal on quota categories and levels prior to the delegation's departure. While the GVN did agree to a second round of negotiations in Washington in March or April, they were unable to agree to set a specific date during the talks. On February 24, econoff met with MOT officials from both the America's Desk and the Import-Export Office to strongly reiterated the US delegation's request for a GVN proposal for specific dates for the next round of negotiations and for a counter offer on quota levels. On February 28, MOT's Import-Export office proposed the week of April 7-12 for the next round in Washington and informed Embassy that they would not be able to provide a counter offer on quotas at this time as they are currently collecting comments from business community but would provide it to the Embassy "as soon as they can." End Summary and introduction.

U.S. Delegation Opening Remarks

12. (SBU) In its opening remarks the U.S. delegation encouraged the GVN to look at textile negotiations as a normal part of the process of building a trade relationship with the U.S. While the U.S. is in the process of integrating quotas under the Agreement on Textiles and Clothing (ATC), for now they still exist, even for WTO member countries. The U.S. has textile agreements with every major Asian supplier, some of who are WTO members. The U.S.- Vietnam Bilateral Trade Agreement (BTA), which came into effect in December 2001, has been successful in integrating Vietnam into the world economy and boosting Vietnam's textile and apparel exports to the U.S. by almost 1600 percent. Vietnam has become a top twenty supplier to the U.S. in some categories and a top ten supplier (capturing 5 percent or more of the market) in others. The U.S. delegation congratulated Vietnam on its success, but noted that it is that success that necessitated holding textile negotiations now. Ultimately the need for negotiations should not be a surprise to the GVN, the U.S. delegation argued, as the issue was discussed many times both during BTA negotiations and after the BTA came into effect. The U.S. delegation highlighted the importance of these talks to the USG, emphasized the U.S. had waited almost a year after the BTA to request negotiations, and reminded the GVN that it is in both sides' interest to conclude the negotiations quickly.

GVN Opening Remarks

13. (SBU) The GVN acknowledged the positive impact the BTA has had on both indirect and direct trade between the U.S. and Vietnam and noted that there are now 700 U.S. companies doing business in Vietnam in a wide range of sectors. The GVN reminded the U.S. side that Vietnam had extended MFN treatment to U.S. imports two years before the BTA took effect and was ahead of schedule in implementing some of its BTA commitments on services. The best way to continue encouraging bilateral trade is to continue Vietnam's quota free period, the GVN argued. Vietnamese textile/apparel exports to the U.S. were only significant in the last half of 2002, the GVN argued, and even then volume was modest

(about 1.6 percent of U.S. textile and apparel imports). Under the BTA, the U.S. and Vietnam agreed to eliminate trade barriers consistent with WTO rules. Textile quotas should be considered a type of trade barrier, the GVN argued.

14. (SBU) The GVN highlighted its status as a developing country and downplayed the size of its textile industry, noting that it is not as well developed as China's or Pakistan's industry and that, while the growth rate of Vietnam's textile exports in 2002 was high, the absolute value of textile exports to the U.S. is modest compared to ASEAN countries and the rest of the world. For example, Cambodian textile exports to the U.S. in 2002 were worth more than USD one billion; Vietnam has not reached that level yet, the GVN asserted. The GVN also argued that Vietnam's textile exports are not damaging the U.S. domestic industry or U.S. trade partners in the Western hemisphere. Although in 2002 the U.S. textile industry declined slightly, the GVN argued, Vietnam's exports were a shift from other countries such as China (which already accounts for about 20 percent of global textile exports).

15. (SBU) The GVN also argued that Vietnamese textile exports have also benefited both the U.S. and its trade partners. In 2002 Vietnam imported about USD 32 million worth of U.S. cotton (almost a third of Vietnam's total cotton imports). Additionally, U.S. trade partners like Taiwan and Korea have invested in Vietnam's textile industry in Vietnam.

U.S. Tables Draft Agreements

16. (SBU) On the first day of talks, the U.S. delegation tabled three draft agreements for the GVN to review: 1) a textile and textile product agreement; 2) an agreement on market access for textiles and textile products (accompanied by a proposed tariff schedule for U.S. textile exports to Vietnam); and 3) a visa arrangement for textiles and textile products. The U.S. side tabled proposed quota categories and levels (Annex B of the main textile agreement) during the second day of talks.

Labor provision

17. (SBU) Section 15 (A, B and C) of the draft textile agreement discusses the protection of worker rights. The U.S. delegation explained that this draft labor provision broadly encompasses three labor-related negotiating objectives contained in the Trade Act of 2002 including: 1) promoting respect for worker rights and the rights of children consistent with the core labor standards of the ILO; 2) seeking provisions in trade agreements under which parties will strive to ensure they do not weaken provisions in domestic laws in order to encourage trade; and 3) promoting ratification and full compliance with ILO Convention 182 on the Worst Forms of Child Labor. Every textile agreement the U.S. has entered into since passage of the Trade Act has included a labor clause, as do U.S. trade preference programs.

18. (SBU) The U.S. side went on to note that the draft labor provision specifically reaffirms Vietnam's commitment to the ILO declaration and highlights U.S.-Vietnam cooperation under the 2000 USDOL-Ministry of Labor, Invalids and Social Affairs (MOLISA) MOU on labor cooperation. The provision does not create new mechanisms or monitoring systems, require new factory visits or link quota levels to DOL reporting on the labor situation in Vietnam. The provision utilizes the mechanisms established in the MOU giving USDOL and MOLISA an opportunity to meet and report on the steps the GVN is taking. The U.S. delegation emphasized that the labor provision is intended to be a positive reaffirmation of Vietnam's commitment to labor rights and an opportunity to demonstrate further cooperation on this important issue.

19. (SBU) The GVN delegation argued strongly for removal of the labor provision from the textile agreement. The GVN highlighted its cooperative efforts with both the ILO (which opened a representative office in Hanoi on February 17) and the USG, calling the DOL-MOLISA MOU on labor "the most important agreement on labor cooperation between the U.S. and Vietnam." The GVN argued that any additional bilateral cooperation activities should be done in the context of the MOU and thus there is no need for another agreement on labor. Other countries that have signed trade agreements containing a labor provision do not also have such an MOU, the Vietnamese delegation added. The labor clause in the Cambodian agreement is an exceptional case and Vietnam does not want to be the "second exceptional case".

10. (SBU) The GVN repeatedly stated that it sees labor and textiles as two very distinct issues and noted that the WTO does not link the two issues. The delegation also pointed out that while a textile agreement is a short-term issue,

labor rights will be addressed over the long run. In addition, contracts between Vietnamese exporters and U.S. importers already include provisions to ensure full compliance with labor standards. The GVN also pointed out that in the context of the anti-dumping case against Vietnamese frozen fish fillets, they believe that the USDOC noted that Vietnam had already taken steps on labor consistent with international labor principles.

Market access

11. (SBU) The U.S. also provided the GVN the draft text of an agreement relating to market access for textiles and textile products (and an annex containing proposed tariff rates). The U.S. delegation emphasized that such agreements are very important to the U.S. domestic textile industry and have become a standard feature in U.S. textile agreements. The USG believes it is imperative to include this as part of the textile negotiations with Vietnam because the BTA does not include commitments on market access for U.S. textiles, although the U.S. has granted Vietnam MFN rates.

12. (SBU) The U.S. delegation explained that many concepts in the draft market access agreement are the same as those used in WTO accession negotiations. The U.S. proposed this agreement for several reasons: 1) to establish tariff bindings for Vietnamese imports of textiles and related products from the U.S.; 2) to obtain a commitment from the GVN that if it offers rates lower than its bound rates to another trade partner, it will also offer these lower rates to the U.S.; and 3) to discipline Vietnam's use of non-tariff measures that would impede access of U.S. textiles to Vietnam's market. The U.S. delegation pointed out that the proposed tariff rates are drawn from tariff rates Vietnam has offered other trade partners.

13. (SBU) The GVN strongly opposed negotiating a market access agreement alongside textile negotiations, repeatedly suggested such negotiations should be done in the context of Vietnam's WTO accession negotiations and yet affirmed its willingness to negotiate market access "anywhere and anytime." If the main objective of a textile agreement is to protect the U.S. domestic textile industry, then why negotiate market access in this context, the GVN asked. The U.S. hasn't done this with other countries. The textile agreements the U.S. has negotiated with 7 or 8 non WTO-member countries (most of which have a higher level of economic development) do not include market access commitments, the GVN complained. In addition, the National Assembly establishes Vietnam's tariff schedule and the legislature must approve any changes to it.

14. (SBU) Noting reports that the GVN has just concluded negotiations with the EU to revise the two sides' textile agreement, the U.S. delegation asked the GVN to confirm if the revised agreement contained tariff bindings and if the GVN would provide the USG with a copy of the agreement. The GVN responded that it had taken 5 to 6 rounds of negotiations to reach agreement with the EU, stated the agreement had not yet been submitted to either government, and noted there was not yet an official text. The GVN acknowledged that the amended agreement did contain some tariff reductions, but noted that these had been given in exchange for Vietnam receiving GSP benefits from the EU. The U.S. has not offered GSP to Vietnam, the GVN added.

Quota levels

15. (SBU) The U.S. delegation submitted a draft Annex B containing proposed quota levels for 41 textile and apparel categories as well as suggested growth rates. The U.S. side explained that the quota levels proposed for 2003 were based upon the latest trade statistics available - the twelve-month period ending in November 2002 - plus a 5 or 10 percent increase depending on the category. The U.S. delegation emphasized that this proposal was an opening offer and invited the GVN to make a counter offer. The GVN responded that they need time to examine the U.S. proposal and noted only that the GVN would prefer to use trade statistics from the last six months of 2002, as that was more indicative of the growth in the sector due to the BTA.

Visa Arrangement

16. (SBU) The draft Visa Arrangement agreement tabled by the U.S. delegation would establish a visa system to be used by the GVN to track and manage its quota. The U.S. side noted that visa arrangements and customs cooperation are common elements in U.S. textile agreements. The GVN delegation asked for more time to review the visa arrangement proposal and note the ongoing cooperation between Vietnamese and U.S. Customs. The GVN suggested arrangements dealing with customs procedures should be handled in the context of a

bilateral agreement on customs cooperation.

Concluding Remarks and Next Steps

17. (SBU) In concluding the negotiations, the GVN noted repeatedly that the drafts tabled by the U.S. were "complicated," and the GVN needed time for its specialists to discuss all of the documents in detail, including the quota categories and limits set forth in the draft annex B. The U.S. delegation responded forcefully that before the negotiations adjourn, the two sides needed to agree on dates for the next round of negotiations and the GVN needed to provide the U.S. with a counter offer on quota levels. Without these two things, the U.S. would face tremendous pressure to impose quotas unilaterally on Vietnam. The GVN referred to the Minister of Trade's proposal that the next round take place between March 20 and April 20 (reported septel) but said the exact date would have to be determined after consideration of both side's schedules.

18. (SBU) On February 24, econoff met with MOT officials from both the America's Desk and the Import-Export Office to strongly reiterated the US delegation's request for a GVN proposal for specific dates for the next round of negotiations and for a counter offer on quota levels. Econoff emphasized that the GVN needed to provide this information by the end of the week of February 24-28. On February 28, MOT's Import-Export office proposed the week of April 7-12 for the next round in Washington. MOT also informed econoff that they would not be able to provide a counter offer on quotas at this time as they are currently collecting comments from business community and would provide it to the Embassy "as soon as they can."

19. (U) The following were the members of the U.S. textile delegation:

David Spooner
USTR Special Textile Negotiator and Head of Delegation

Caroyl Miller
USTR Deputy Textile Negotiator

Katharine Mueller
USTR Assistant General Counsel

William Clatanoff
Assistant USTR Representative for Labor

James Leonard
USDOC, Deputy Assistance Secretary, OTEXA
Donald Foote
USDOC, Director, Agreements Division, OTEXA

Philip Martello
USDOC, Director, Trade Data Division, OTEXA

Richard Crichton
U.S. Customs, International Trade Manager

Robert Boynton
State, Senior Textile Negotiation

Ana Valdes
USDOL, International Economist

Jessica Adkins
Economic Officer, U.S. Embassy Hanoi

20. (U) The following were the members of the GVN textile delegation:

Le Van Dao
Ministry of Trade (MOT), Deputy Director, Import-Export
Dept, Head of Delegation

Nguyen Hong Duong
MOT, Deputy Director, Europe and Americas

Nguyen Van Binh
MOT, Deputy Director, Europe and Americas

Le Van Thang
MOT, Deputy Director, Export-Import Dept

Luong Hoang Thai
MOT, Head of WTO Division, Multilateral Trade Policy Dept

Phan Thi Dieu Ha
MOT, Head of Textile Division, Export-Import Dept.

Duong Phuong Thao
MOT, Expert, Europe and Americas

Nguyen Duc Nhat

MOT, Interpreter, Europe and Americas

Nguyen Thi My Hanh
MOT, Expert, Export-Import Dept

Do Thu Huong
MOT, Expert, Export-Import Dept

Do Thuy Lan
MOT, Expert, Export-Import Dept

Cao Quoc Hung
Ministry of Industry (MOI), Deputy Director, International
Cooperation Dept

Nguyen Hoang Phuong
MOI, Principal Expert, International Cooperation Dept

Nguyen Thi Man
Ministry of Planning and Investment (MPI), Deputy Director,
Commerce and Services Dept

Nguyen Thuy Huong
MPI, Expert, Investment Project Monitoring Dept

Nguyen Tat Thanh
Ministry of Foreign Affairs (MOFA), Deputy Director,
Multilateral Economic Cooperation Dept

Nguyen Huong Tra
MOFA, Expert, Multilateral Economic Cooperation Dept

Pham Phuong Anh
MOFA, Expert, Americas Dept

Nguyen Thu Do
Office of the Government, Deputy Director, International
Cooperation Dept

Tuong Cong Sinh
Customs, Manager, International Cooperation Dept

Le Xuan Hue
Customs, Expert, International Cooperation Dept

Ha Huy Tuan
Ministry of Finance (MOF), Deputy Director, International
Cooperation Dept

Bui Thanh Hai
MOF, Expert, International Cooperation Dept

Nguyen Manh Cuong
MOLISA, Deputy Director, International Relations Dept

121. (U) USTR Spooner cleared this cable.
BURGHARDT